



FISCAL MEMORANDUM

HB 2536 - SB 2573

March 7, 2022

SUMMARY OF BILL AS AMENDED (014789): Authorizes owners of real property used primarily for agricultural purposes who reside in a territory previously annexed by ordinance upon the initiative of the municipality to petition the municipality to deannex such property if some portion of the property lies within one mile of the existing municipal boundaries. Requires the municipality to determine any debt amount owed within 30 days of receiving the petition and provides that the deannexation of the property is operative 90 days after the municipality receives the petition. Specifies the type of debt on which the municipality is authorized to continue to levy and collect taxes after a territory is deannexed.

Provides that a municipal utility is not required to cease providing services in the territory excluded from the municipality's corporate limits.

FISCAL IMPACT OF BILL AS AMENDED:

Other Fiscal Impact –The extent and timing of any mandatory decrease in local revenue due to the condensing of the period for which a municipality may continue to levy and collect taxes after a territory is deannexed cannot be reasonably quantified.

Assumptions for the bill as amended:

- Per the proposed legislation, “property used primarily for agricultural purposes” means property owned or operated by a person whose federal income tax return contains one or more of the following:
 - Business activity on IRS schedule F, profit or loss from farming, and the business activity reflected on the form is related to the property that is the subject of the petition; or
 - Farm rental activity on IRS form 4835, farm rental income and expenses or schedule E, supplemental income and loss, and the farm rental activity reflected on the form is related to the property that is the subject of the petition.
- Public Chapter 707 (PC 707) of the 108th General Assembly, which amended Tenn. Code Ann. § 6-51-104(a), established that a property being used primarily for agricultural purposes may be annexed only with the written consent of the property owner or owners.

- The proposed legislation will allow owners of property used primarily for agricultural purposes that was annexed by ordinance upon the initiative of the municipality prior to the effective date of PC 707 to deannex from that municipality.
- Under the proposed legislation, the municipality must determine the debt amount owed, if any, within 30 days of receiving the petition of deannexation.
- Under current law, pursuant to Tenn. Code Ann. § 6-51-204(a), a municipality may continue to levy and collect taxes on property in the excluded territory to pay the excluded territory's portion of any debt contracted prior to the exclusion.
- The proposed legislation authorizes a municipality to continue to levy and collect taxes on property in the excluded territory to pay the excluded territory's proportion of any debt newly contracted after the territory was annexed and prior to the exclusion so that a property owner is only responsible for any debt incurred while the property was municipal territory.
- Given the condensed period for which a municipality may continue to levy and collect taxes, there may be a mandatory decrease in local revenue as a result of the proposed legislation, the extent and timing of which cannot be determined.
- Typically, in instances where a municipal territory is deannexed, there will be a shift in the responsibility of the provision of certain services from the municipality to the county, and thus, a shift in revenue from the municipality to the county.
- The proposed legislation specifies that a municipal utility is not required to cease providing electrical service, sanitary sewer service, other utility services, or street lighting services in the territory excluded from the municipality's corporate limits. Since these utility providers are authorized to provide such services and collect fees, it is assumed that they will continue to do so. Therefore, no fiscal impact to local government is expected.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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